

EUCALYPTUS GROVE HOMEOWNERS ASSOCIATION

FINANCIAL STATEMENTS

DECEMBER 31, 2010

EUCALYPTUS GROVE HOMEOWNERS ASSOCIATION

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PURDY & COMPANY
CERTIFIED PUBLIC ACCOUNTANT

To the Board of Directors
Eucalyptus Grove Homeowners' Association

We have reviewed the Balance Sheet of Eucalyptus Grove Homeowners' Association as of December 31, 2010 and the related Statements of Revenues and Expenses, Changes in Fund Balances, and the Statement of Cash Flows for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management Andorra Owners' Association.

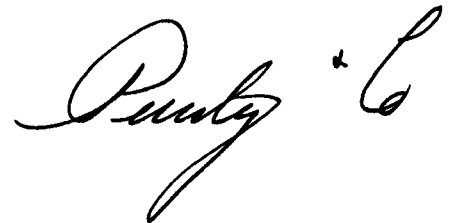
A review consists principally of inquiries of Company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles

The Note 2 - Replacement Fund of the accompanying notes to financial statements is presented for analytical purposes. We have applied certain limited procedures, which consisted of inquiries of management regarding the methods of measurement and presentation of the supplementary data.

Our review was made for the purpose of expressing limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with the cash method of accounting. The Schedule of Operating Fund Expenses on page five (5) is presented only for supplementary analytical purposes. Such information has been subjected to the inquiry and analytical procedures applied in review of the basic financial statements, and we are not aware of any material modifications that should be made to it.

February 2, 2011

A handwritten signature in cursive script, reading "Purdy & Co.", located in the bottom right area of the page.

EUCALYPTUS GROVE HOMEOWNERS ASSOCIATION

BALANCE SHEET DECEMBER 31, 2010

	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>TOTAL</u>
ASSETS			
Cash - Operating	\$5,000		\$5,000
Community West Bank-Money Market		\$239,416	239,416
Community West Bank-CDARS		945,000	945,000
Assessments Receivables	39,300		39,300
Prepaid Insurance	49,158		49,158
Prepaid Taxes		1,412	1,412
TOTAL ASSETS	<u>\$93,458</u>	<u>\$1,185,828</u>	<u>\$1,279,286</u>
LIABILITIES			
Accounts Payable	\$9,366		\$9,366
Prepaid Assessments	5,831		5,831
TOTAL LIABILITIES	<u>15,197</u>	<u>0</u>	<u>15,197</u>
FUND BALANCES	<u>78,261</u>	<u>1,185,828</u>	<u>1,264,089</u>
TOTAL LIABILITIES & FUND BALANCES	<u>\$93,458</u>	<u>\$1,185,828</u>	<u>\$1,279,286</u>

See Accountant's Review Report.

The accompanying notes are an integral part of these financial statements.

EUCALYPTUS GROVE HOMEOWNERS ASSOCIATION

STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>TOTAL</u>
REVENUES			
Member Assessments	\$819,109		\$819,109
Interest		\$4,599	4,599
Late Charges	2,440		2,440
Miscellaneous	1,020		1,020
TOTAL REVENUES	822,569	4,599	827,168
EXPENSES			
Operating & Income Taxes	250,481	1,028	251,509
Administrative	134,385		134,385
Reserve Expenses		108,551	108,551
Reserve Study		1,280	1,280
TOTAL EXPENSES	384,866	110,859	495,725
Excess (deficiency) of revenues over expenses	437,703	(106,260)	331,443
Beginning fund balances	56,127	876,519	932,646
Transfer into (out of) funds	(415,569)	415,569	0
ENDING FUND BALANCES	\$78,261	\$1,185,828	\$1,264,089

See Accountant's Review Report.

The accompanying notes are an integral part of these financial statements.

EUCALYPTUS GROVE HOMEOWNERS ASSOCIATION

STATEMENT OF CASH FLOW FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Excess Revenues over (Expenses)	\$437,703	(\$106,260)	\$331,443
Adjustments to reconcile Excess Revenue to net cash provided by operating activities:			
Reserve Expenses		110,859	110,859
(Increase) Decrease in Current Assets:			
Assessments Receivable	(17,907)		(17,907)
Prepaid Taxes		(538)	(538)
Prepaid Insurance	1,854		1,854
Increase (Decrease) in Current Liabilities:			
Accounts Payable	(5,968)		(5,968)
Prepaid Assessments	(113)		(113)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>415,569</u>	<u>4,061</u>	<u>419,630</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Reserve Expenditures	0	(110,859)	(110,859)
NET CASH (USED) BY INVESTING ACTIVITIES	<u>0</u>	<u>(110,859)</u>	<u>(110,859)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Transfer to Reserve Fund	(415,569)	415,569	0
NET CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(415,569)</u>	<u>415,569</u>	<u>0</u>
NET INCREASE (DECREASE) IN CASH	<u>0</u>	<u>308,771</u>	<u>308,771</u>
CASH & EQUIVALENTS AT BEGINNING OF YEAR	5,000	875,645	880,645
CASH & EQUIVALENTS AT END OF YEAR	<u>5,000</u>	<u>1,184,416</u>	<u>1,189,416</u>
SUPPLEMENTAL DISCLOSURE:			
Income Taxes Paid		\$1,566	\$1,566

See Accountant's Review Report.
The accompanying notes are an integral part of this financial statement.

EUCALYPTUS GROVE HOMEOWNERS ASSOCIATION

SCHEDULE OF OPERATING FUND EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2010

OPERATING EXPENSES

Electricity	\$19,915
Exterminating	1,546
Janitorial	10,565
Landscaping & Gardening	72,247
Miscellaneous	2,205
Pool Maintenance & Supplies	20,472
Repairs & Maintenance	48,197
Rubbish Removal	51,215
Supplies	3,723
Telephone	479
Water & Sewer	19,917

TOTAL OPERATING EXPENSES

250,481

ADMINISTRATIVE EXPENSES

Audit and Tax Preparation	1,325
Insurance	102,894
Management Fees	26,772
Other Taxes & License	10
Professional Fees	3,384

TOTAL ADMINISTRATIVE EXPENSES

134,385

TOTAL OPERATING FUND EXPENSES

\$384,866

See Accountant's Review Report.

The accompanying notes are an integral part of these financial statements.

EUCALYPTUS GROVE HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Eucalyptus Grove Homeowners' Association is an Association of 179 units, organized and operated to provide for the management, maintenance and care of Association property and common areas. In addition to such duties, the Association maintains architectural control, enforces its protective restrictions, and promotes the general welfare of the community comprising the Association.
- B. The Association maintains its books and records on the accrual basis of accounting. As a result, revenues are recorded when earned, and expenses are recorded when incurred.
- C. The Association is a not-for-profit organization, which employs a fund method of accounting. The fund method properly accounts for restrictions on the expenditures resulting from actions of the Board of Directors or the Association voting membership.

These financial statements separate funds into two classes. The first is the operating fund; these are funds whose disposition is at the discretion of the Board of Directors and the property manager and are generally used for operating expenses. The second is the unrestricted Reserves; these are to be used for replacement of common area expenditures and may be used for general operating purposes.

It is the Association's policy that any excess funds at the end of the operating year will be allocated to the following year or held as additional funds for the replacement of Association assets.

- D. The Association's checking and savings accounts, as well as its primary accounting records, are maintained by Bartlein & Company, Inc., located in Santa Barbara, California. Bartlein & Company, Inc. has been issued a Fidelity Bond in the amount of \$500,000. The insured party is Bartlein & Company, Inc.
- E. Association members are subject to monthly assessments of \$380. The assessment receivable balance as of December 31, 2010 represents monthly assessments, late fees, fines and other charges due from the homeowners. The Association uses the allowance method to account for uncollectible assessments.
- F. For purposes of the Statement of Cash Flows, the Association considers cash equivalents to be all certificates of deposit with a maturity of up to 24 months.
- G. The Association has used estimates in the preparation of the financial statements to be in conformity with generally accepted accounting principles.

EUCALYPTUS GROVE HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 2 - INCOME TAXES

Eucalyptus Grove Homeowners' Association files income taxes on a calendar year end. The Association has elected to be taxed as a regular corporation under the provisions of Section 277 of the Internal Revenue Code. Accordingly, the Association has taxable income of \$4,201 Federal income tax liability of \$630 for the year ended.

The Association has been granted a Section 23701 (t) exemption by the State of California. Any income from sources other than membership dues, fees, and assessments (exempt-function income) is taxable if it exceeds \$100 per year. The Association has non-exempt function income of \$4,499. State income tax liability on this income is \$398.

NOTE 3 – SETTLEMENT

The Association was part of a class action lawsuit against Forestex Siding, and received a settlement in 2008, of \$103,891.83, to be used for repairs.

NOTE 4 - REPLACEMENT RESERVES

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate savings accounts and are generally not available for expenditures for normal operations. A formal independent reserve study determines the adequacy or deficiency of the association's actual reserves compared to the calculated reserve requirement. Actual replacement costs and major improvements are utilized to determine the optimum reserve requirement. A reserve study was conducted by the Board of Directors and distributed to the homeowners.

Funds are being accumulated in the replacement fund based on estimated future costs for repairs and replacements of common property components. As of December 31, 2010, the reserves were 62% funded. Actual expenditures and investment income may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to membership approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available. The following table is based on the study and presents significant information about the components of common property as of December 31, 2010.

**EUCALYPTUS GROVE HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

<u>COMPONENT</u>	<u>EXPECTED DATE DUE</u>	<u>CURRENT REPLACEMENT COST</u>	<u>REQUIRED RESERVES 12/31/10</u>	<u>CURRENT RESERVES 12/31/10</u>
Foundation Repair	2011	\$520,000	\$520,000	\$520,000
Gate Operator (Slide)	2011	2,800	2,800	2,800
Exercise Room Equip.	2011	7,000	7,000	7,000
Gate Operator (Slide)	2011	2,800	2,800	2,800
Paint Wood/Metal Trim	2011	77,000	77,000	77,000
Roof Shingle (Balance)	2011	159,000	159,000	159,000
Dryrot Repairs	2011	300,000	300,000	300,000
Spa Filter	2011	1,250	1,250	1,250
Stair Landing Reseal	2011	15,600	15,600	15,600
Termite Fumigation (Bal)	2011	6,000	6,000	6,000
Tree Trimming	2011	16,500	16,500	16,500
Paint-Wood Siding	2012	156,000	130,000	76,466
Paint Carports	2012	84,000	70,000	0
Paint Metal Fence & Rail	2012	6,800	4,533	0
Asphalt Seal Coat/Repair	2012	42,000	28,000	0
Cabana Water Htr.	2012	2,600	2,383	0
Mailbox Pagodas	2012	14,000	13,300	0
Pool Pump	2012	850	708	0
Spa Pumps	2012	1,700	1,417	0
Lights-Street Fixtures	2013	22,400	20,800	0
Paint Front Wood Fence	2013	6,600	4,400	0
Termite Fumigation (7606)	2014	6,000	4,800	0
Asphalt Overlay	2015	180,000	156,000	0
Cabana Floor & Wall Tile	2015	10,400	9,013	0
Metal Pool Fence (6')	2015	7,200	6,240	0
Spa Retile	2015	6,000	5,200	0
Stair Rails (3.5')	2015	13,000	11,267	0
Cabana Sauna/Bath Rem.	2015	5,000	4,333	0
Termite Fumigation (7630)	2015	6,000	4,400	0
Pool Filter	2016	1,300	758	0
Pool Heater	2016	3,300	1,650	0
Sauna Heater	2016	2,600	1,733	0
Spa Heater	2016	3,300	1,238	0
Termite Fumigation (7634)	2016	6,000	4,000	0
Bridge Repair	2017	11,000	6,600	0
Termite Fumigation (7620)	2017	6,000	3,600	0
Card Reader/Buzzers	2018	4,400	1,833	0
Roof-Metal Carport	2018	180,000	138,000	0
Termite Fumigation (7632)	2018	6,000	3,200	0
Subtotal		1,902,400	1,747,356	1,184,416

**EUCALYPTUS GROVE HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

<u>COMPONENT</u>	<u>EXPECTED DATE DUE</u>	<u>CURRENT REPLACEMENT COST</u>	<u>REQUIRED RESERVES 12/31/10</u>	<u>CURRENT RESERVES 12/31/10</u>
Subtotal		1,902,400	1,747,356	1,184,416
Termite Fumigation (7602)	2019	6,000	2,800	0
Termite Fumigation (7610)	2019	6,000	2,800	0
Stair Landing Resurface	2020	44,200	24,310	0
Split Rail Fence	2020	6,300	4,680	0
Pool Refiberglass	2020	10,000	2,500	0
Intercom	2021	3,900	1,300	0
Slide Gates	2022	6,400	3,584	0
Termite Fumigation (7624)	2023	6,000	1,200	0
Termite Fumigation (7636)	2023	6,000	1,200	0
Termite Fumigation (7640)	2023	6,000	1,200	0
Termite Fumigation (7628)	2025	6,000	400	0
Siding Replacement	2025	330,000	99,000	0
Termite Fumigation (7626)	2025	6,000	400	0
Front Wood Fence	2027	30,000	6,000	0
Pool Tile/Coping	2028	3,400	510	0
Pool Decking	2028	11,000	1,650	0
Sauna Remodel	2028	5,400	810	0
Gutters/Downspouts	2029	42,000	11,760	0
Roof Shingle 7626, 30	2031	79,500	15,900	0
Roof Shingle 7624, 28	2034	53,000	4,240	0
Roof Shingle 7636 & 38	2035	53,000	2,120	0
		\$2,622,500	\$1,935,720	\$1,184,416